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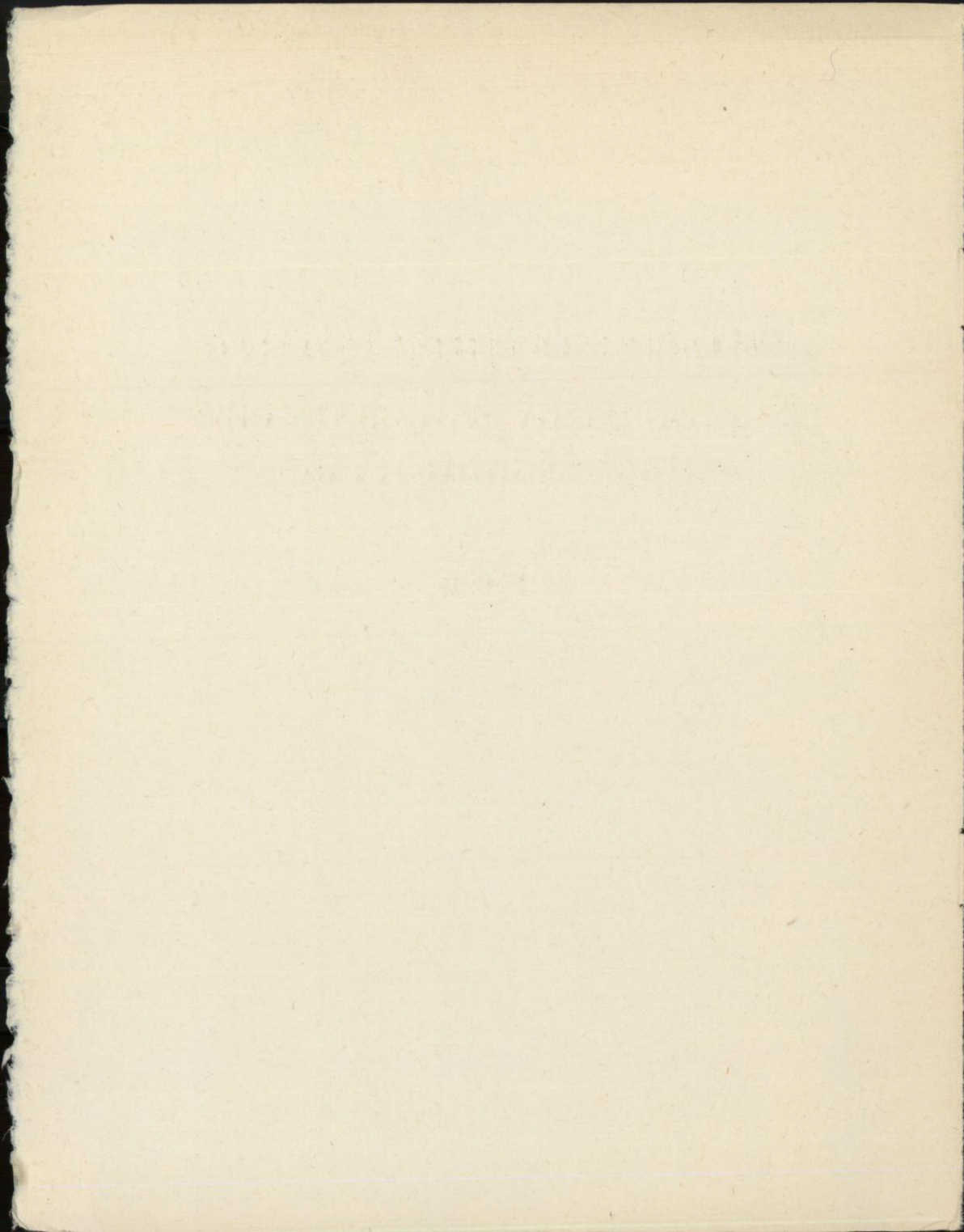
MONTGOMERY WARD
Seventy-Third Annual Report
Twelve Months Ended
January 31
1945

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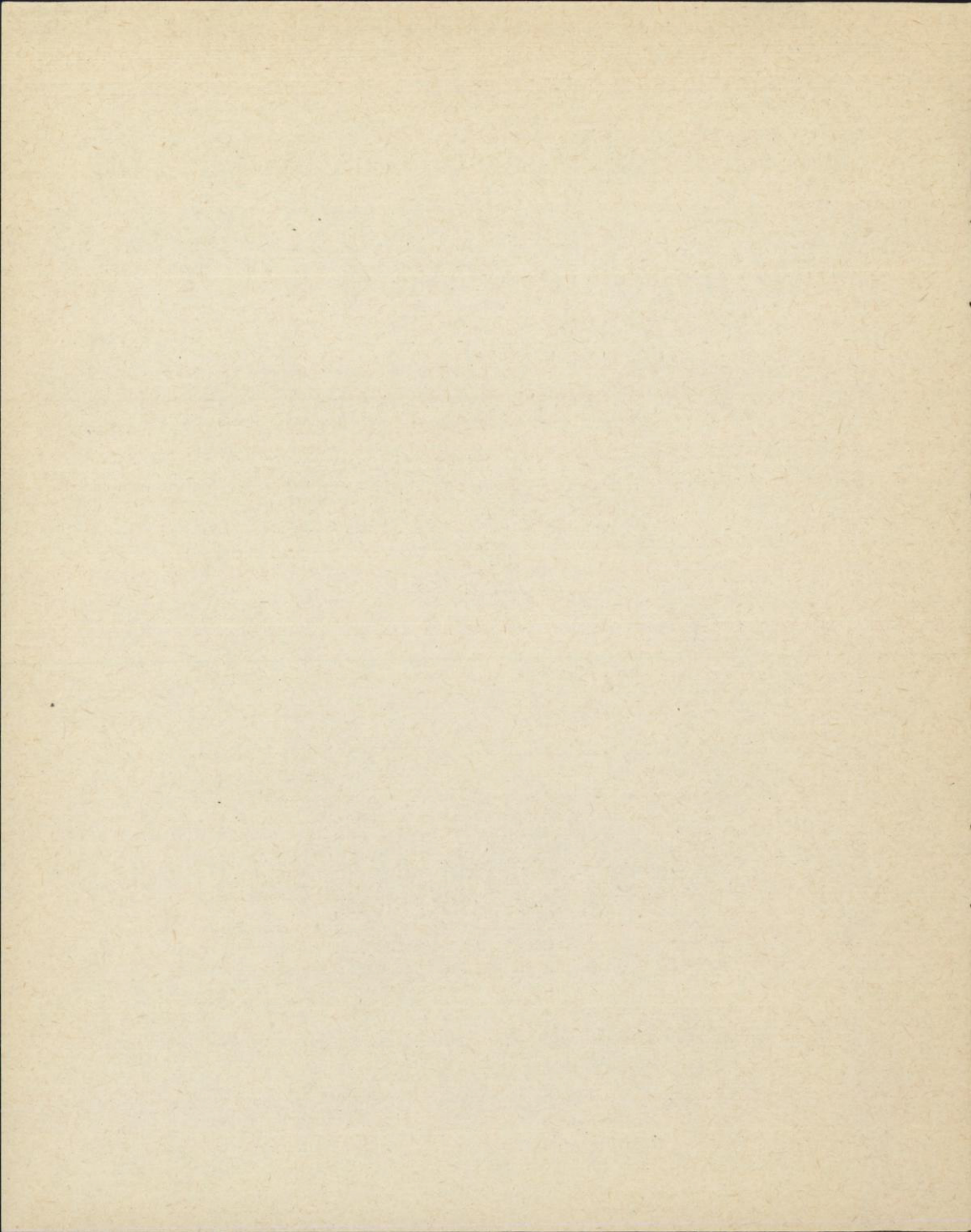
Montgomery Ward & Co.

INCORPORATED

(AN ILLINOIS CORPORATION)



Seventy-Third Annual Report
Twelve Months Ended
January 31, 1945



Chicago, March 21, 1945

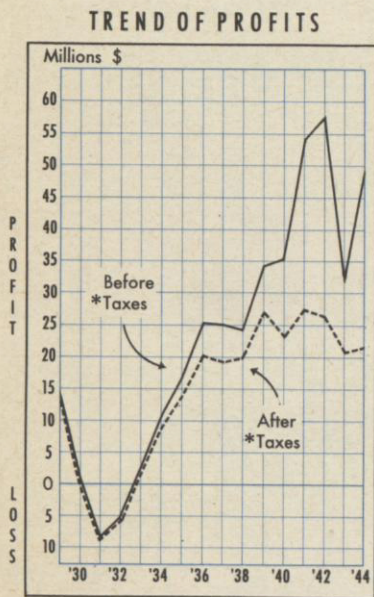
To the Shareholders of

Montgomery Ward & Co.:

Net profits for the fiscal year ended January 31, 1945, were \$21,285,839, representing common stock earnings of \$3.81 per share, after deducting dividends paid on the Class

"A" stock. For the preceding year the corresponding profits were \$20,677,098, or \$3.69 per share.

Net sales for the year of \$620,968,523 were 4.2% higher than the sales of the previous year. Earnings before taxes were \$49,065,839, or 7.9% of sales, an improvement of more than \$17,000,000 over last year's earnings of \$31,932,098, or 5.3% of sales. All divisions of the business operated profitably for



*State and Federal Income and Excess Profits Taxes

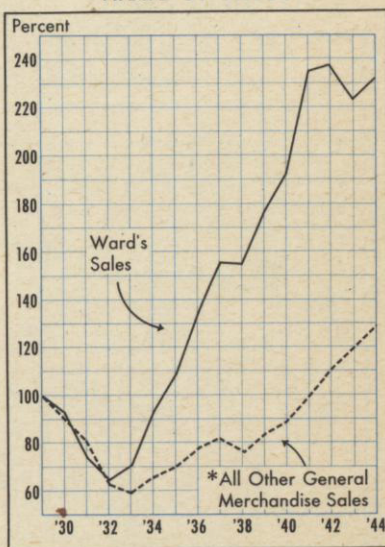
the year. The increased earnings reflect a continuation of satisfactory retail store performance and a substantial improvement in mail order operations, although it was necessary to return more than \$77,000,000 to mail order customers who ordered merchandise which could not be supplied.

Merchandise inventories of \$117,530,922 were \$7,047,057 or 5.7% under last year. Combined merchandise inventories and orders in the hands of suppliers were approximately 15% higher than a year ago.

Cash and U.S. Government securities, including tax notes purchased for payment of Federal taxes, totaled \$125,973,774, and exceeded total liabilities by \$55,857,303. Net working capital increased more than \$10,000,000 during the year to \$222,081,268 at the year end. The ratio of current assets to current liabilities was 6.6 to 1.

Cash dividends amounting to \$11,845,172 were paid

TREND OF SALES



*From U.S. Department of Commerce.
(Excluding Ward's Sales)

during the year, of which \$1,410,878 were paid to the Class "A" shareholders, and \$10,434,294, or \$2.00 per share to the holders of common stock. Earnings retained for the security and growth of the company amounted to \$9,440,667, and increased earned surplus to \$109,518,265 at the year end. The book value of common stock was \$45.70 per share.

Included herein are comparative balance sheets and income statistics showing the growth of the company over the past ten years.

The company has steadfastly opposed the efforts of the National War Labor Board to impose upon the employees the form of closed shop called "maintenance of membership." Every order issued by the War Labor Board against the company has sought to impose this requirement. The company has refused to comply with these orders because compulsory union membership violates the American principles of liberty and freedom.

The Court of Appeals of the District of Columbia held that orders of the War Labor Board are merely "advice" which no one has any legal duty to obey. The court held that anyone who refuses to comply with Board orders

is not defying a demand of the Government and, since the orders are merely advisory, no governmental official has the right to impose punishment on those who do not comply. The Supreme Court refused to alter this decision.

Nevertheless, the President of the United States on December 27, 1944 ordered the United States Army to seize and operate certain of the company's mail order houses, retail stores, and warehouses, and to enforce the orders of the War Labor Board.

The Army replaced the company's managers with Army officers. The Army appropriated to its own use the cash on hand. The Army sold the company's merchandise and retained the money collected. The Army appropriated the payments made by customers on accounts owed the company for merchandise previously sold. Despite these actions, the Army by January 31, had paid from its own funds \$2,306,474.36 more than it had appropriated.

On January 27, Judge Philip L. Sullivan of the United States District Court at Chicago held "that the possession by the President of the United States of the properties and facilities . . . of Montgomery Ward & Co. . . . is illegal and unlawful" and that the President's order under which the plants were seized "is null and void."

The Court said:

"The Constitutional guaranties that protect the sacred rights, liberties and property of American citizens, from the humblest to the most exalted, still remain inviolate. These rights may not be transgressed with impunity nor be disregarded because of expediency; neither may they be abridged or suspended, even for a single moment, except in the manner and under the circumstances specifically provided by law."

The Government has appealed this decision. In the meantime, despite the decision of the court, the Army continues in possession of the seized properties.

Respectfully submitted,

SEWELL AVERY,

Chairman of the Board

Montgomery Ward

Balance Sheet

ASSETS

Current Assets:

Cash.....		\$ 16,991,272.09	
U. S. Government securities (short term)....		78,518,501.58	
Receivables—			
Customers' time payment accounts....	\$ 45,643,608.37		
Customers' charge and other accounts..	6,021,382.17		
Due from suppliers, claims receivable, etc.	3,778,832.62		
	<u>\$ 55,443,823.16</u>		
Less—Reserves for doubtful accounts and collection expense.....	6,750,780.26	48,693,042.90	
Merchandise inventories (priced at the lower of cost or market).....		<u>117,530,921.72</u>	
Total current assets.....		\$ 261,733,738.29	

Prepaid Catalog Costs and Expenses... 8,819,426.02

Refundable Excess Profits Taxes..... 4,505,000.00

Fixed Assets (at cost, less depreciation reserves):

Land.....	\$ 6,356,335.39		
Buildings.....	\$ 36,401,901.44		
Fixtures and equipment..	30,308,688.85		
	<u>\$ 66,710,590.29</u>		
Less—Reserves for depreciation.....	35,712,067.76	30,998,522.53	
Leasehold improvements (less amortization)...	4,398,557.04	41,753,414.96	
		<u>\$ 316,811,579.27</u>	

Note: Certain company properties, representing approximately 10% of the total assets, were seized by the United States Army. This seizure is reflected in the balance sheet as a decrease in the value of the assets.

& Co., Incorporated

— January 31, 1945

LIABILITIES

Current Liabilities:

Accounts payable.....		\$ 15,204,367.56
Due customers.....		12,395,284.72
Net cash outlay by U. S. Army (see note)....		2,306,474.36
Accrued expenses and miscellaneous taxes.....		9,746,344.11
Accrued Federal income taxes.....	\$ 30,464,000.00	
Less—U. S. Treasury savings notes.....	30,464,000.00	—
Total current liabilities.....		<u>\$ 39,652,470.75</u>

Reserves:

Possible future inventory price decline....	\$ 16,000,000.00	
Self-insurance and contingencies.....	<u>2,605,180.29</u>	18,605,180.29

Capital Stock and Surplus:

Capital stock—		
Authorized—		
Class "A"—205,000 shares of no par value, \$7 per share cumulative dividends, non-callable and with preference in liquidation of \$100 per share		
Common—10,000,000 shares of no par value		
Issued (stated value)—		
Class "A"—205,000 shares }	\$ 149,288,340.08	
Common—5,217,147 shares }		
Less—Class "A" Treasury stock—		
3,446 shares.....	<u>252,676.50</u>	
	\$ 149,035,663.58	
Earned surplus.....	<u>109,518,264.65</u>	258,553,928.23
		<u><u>\$ 316,811,579.27</u></u>

proximately 15% of total company assets, have been discussed in the accompanying letter to shareholders.

Montgomery Ward & Co., Incorporated

Comparative Income Account

	<i>Year Ended January 31</i>	
	<i>1945</i>	<i>1944</i>
Net sales	\$ 620,968,523.00	\$ 595,932,821.00
Deduct—		
Cost of sales, selling, and general expenses, and all taxes other than income taxes . . .	\$ 568,377,244.86	\$ 560,356,211.75
Depreciation and amortization of fixed properties	3,525,439.34	3,644,511.15
	\$ 571,902,684.20	\$ 564,000,722.90
Net profit before taxes on income	\$ 49,065,838.80	\$ 31,932,098.10
Provision for income and excess profits taxes—		
Federal and state income taxes	\$ 12,950,000.00	\$ 11,895,000.00
Excess profits taxes (less refundable portion) . . .	14,830,000.00	—
Less—Prior year's refundable excess profits taxes	—	640,000.00
	\$ 27,780,000.00	\$ 11,255,000.00
Net profit for the year	\$ 21,285,838.80	\$ 20,677,098.10
Provision for possible future inventory price decline	\$ —	\$ 1,000,000.00
Less—Excess reserves for doubtful time payment receivables provided in prior periods	—	1,000,000.00
	\$ —	\$ —
Net profit to surplus	\$ 21,285,838.80	\$ 20,677,098.10

Montgomery Ward & Co., Incorporated

Earned Surplus Account

Balance January 31, 1944.....	\$ 100,077,597.85
Net profit for the year ended January 31, 1945.....	<u>21,285,838.80</u>
Total.....	\$ 121,363,436.65
Deduct—	
Dividends on Class "A" stock—\$7.00 per share..	\$ 1,410,878.00
Dividends on common stock—\$2.00 per share..	<u>10,434,294.00</u>
	<u>11,845,172.00</u>
Balance January 31, 1945.....	<u><u>\$ 109,518,264.65</u></u>

To the Board of Directors,

Montgomery Ward & Co., Incorporated:

We have examined the balance sheet of MONTGOMERY WARD & CO., INCORPORATED (an Illinois corporation) as of January 31, 1945, and the statements of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods, at times, and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We made a similar examination for the preceding year.

In our opinion, the accompanying balance sheet and related statements of income and surplus present fairly the position of the company at January 31, 1945, and the results of its operations for the two years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chicago, Illinois, March 12, 1945

ARTHUR ANDERSEN & Co.

Montgomery Ward

Comparison of

January 31

1945

1944

1943

1942

ASSETS

Cash and U. S. Securities . . .	\$ 95,509,773	\$ 77,203,467	\$ 44,104,978	\$ 15,955,864
Receivables, less Reserves . .	48,693,043	42,054,432	53,539,393	91,073,514
Merchandise Inventories . . .	<u>117,530,922</u>	<u>124,577,979</u>	<u>139,733,375</u>	<u>123,102,953</u>
Total Current Assets	\$ 261,733,738	\$ 243,835,878	\$ 237,377,746	\$ 230,132,331
Prepaid Expenses	8,819,426	8,789,158	9,345,872	10,508,082
Investments, etc.	4,505,000	2,685,000	2,045,000	678,173
Fixed Assets	<u>41,753,415</u>	<u>44,278,550</u>	<u>46,360,093</u>	<u>48,981,230</u>
	<u>\$ 316,811,579</u>	<u>\$ 299,588,586</u>	<u>\$ 295,128,711</u>	<u>\$ 290,299,816</u>

LIABILITIES

Current Liabilities	\$ 39,652,470	\$ 31,777,287	\$ 36,986,928	\$ 51,239,949
Reserves	18,605,180	18,698,037	17,860,447	7,370,943
Capital Stock	149,035,664	149,035,664	149,035,664	149,035,664
Earned Surplus	<u>109,518,265</u>	<u>100,077,598</u>	<u>91,245,672</u>	<u>82,653,260</u>
	<u>\$ 316,811,579</u>	<u>\$ 299,588,586</u>	<u>\$ 295,128,711</u>	<u>\$ 290,299,816</u>
Net Working Capital	<u>\$ 222,081,268</u>	<u>\$ 212,058,591</u>	<u>\$ 200,390,818</u>	<u>\$ 178,892,382</u>

& Co., Incorporated

Balance Sheets

January 31

1941	1940	1939	1938	1937	1936
\$ 16,413,449	\$ 14,396,412	\$ 24,392,658	\$ 18,515,251	\$ 17,130,892	\$ 15,220,171
94,715,917	78,880,212	62,593,191	57,353,769	44,355,143	33,659,388
101,710,763	96,323,612	81,494,245	77,361,847	87,174,188	65,435,102
\$ 212,840,129	\$ 189,600,236	\$ 168,480,094	\$ 153,230,867	\$ 148,660,223	\$ 114,314,661
8,357,296	7,153,715	6,655,355	6,412,777	5,912,666	4,751,844
856,718	5,234,916	6,012,451	6,648,497	7,257,670	8,109,448
49,623,060	49,848,029	46,683,090	46,896,602	44,851,570	41,508,483
<u>\$ 271,677,203</u>	<u>\$ 251,836,896</u>	<u>\$ 227,830,990</u>	<u>\$ 213,188,743</u>	<u>\$ 206,682,129</u>	<u>\$ 168,684,436</u>
\$ 49,362,756	\$ 40,704,949	\$ 31,901,198	\$ 27,675,902	\$ 29,885,833	\$ 17,631,525
1,132,067	1,132,412	1,095,730	1,087,137	1,004,358	971,032
149,035,664	149,035,664	149,035,664	149,035,664	147,779,264	122,949,944
72,146,716	60,963,871	45,798,398	35,390,040	28,012,674	27,131,935
<u>\$ 271,677,203</u>	<u>\$ 251,836,896</u>	<u>\$ 227,830,990</u>	<u>\$ 213,188,743</u>	<u>\$ 206,682,129</u>	<u>\$ 168,684,436</u>
<u>\$ 163,477,373</u>	<u>\$ 148,895,287</u>	<u>\$ 136,578,896</u>	<u>\$ 125,554,965</u>	<u>\$ 118,774,390</u>	<u>\$ 96,683,136</u>

Montgomery Ward

Comparison of Sales,

FISCAL YEAR ENDED JANUARY 31	NET SALES	PROFIT BEFORE INCOME TAXES	INCOME TAXES	NET PROFIT
1945	\$ 620,968,523	\$ 49,065,839	\$ 27,780,000	\$ 21,285,839
1944	595,932,821	31,932,098	11,255,000	20,677,098
1943	635,006,979	57,597,584	31,160,000	26,437,584
1942	632,708,657	54,011,716	26,660,000	27,351,716
1941	515,910,915	35,083,017	12,055,000	23,028,017
1940	474,882,032	34,310,645	7,300,000	27,010,645
1939	413,961,241	24,044,956	4,400,000	19,644,956
1938	414,090,544	25,110,029	5,900,000	19,210,029
1937	361,297,059	25,198,914	5,000,000	20,198,914
1936	293,042,357	16,837,310	3,310,000	13,527,310
Totals	\$ 4,957,801,128	\$ 353,192,108	\$ 134,820,000	\$ 218,372,108

& Co., Incorporated

Earnings, and Surplus

DIVIDENDS	INVENTORY PRICE DECLINE RESERVE (End of Year)	EARNED SURPLUS (End of Year)	BOOK VALUE PER COMMON SHARE
<hr/>	<hr/>	<hr/>	<hr/>
\$ 11,845,172	\$ 16,000,000	\$ 109,518,265	\$ 45.70
11,845,172	16,000,000	100,077,598	43.89
11,845,172	15,000,000	91,245,672	42.19
11,845,172	5,000,000	82,653,260	40.54
11,845,172	—	72,146,716	38.53
11,845,172	—	60,963,871	36.38
9,236,598	—	45,798,398	33.48
11,832,663	—	35,390,040	31.48
19,318,175	—	28,012,674	29.98
2,469,036	—	27,131,935	28.46
<hr/>	<hr/>	<hr/>	<hr/>
\$ 113,927,504			
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Montgomery Ward & Co., Incorporated

DIRECTORS

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PHILIP R. CLARKE
DAVID A. CRAWFORD
PERCY B. ECKHART
CHARLES F. GLORE
WILLIAM L. KEADY
DONALD R. McLENNAN, JR.

HAROLD L. PEARSON
BERT R. PRALL
CLEMENT D. RYAN
*SILAS H. STRAWN
JAMES W. THORNE
GEORGE WHITNEY

*Chairman, Executive Committee

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BERT R. PRALL.....*Vice-President*
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J. P. MORGAN & CO., INCORPORATED, NEW YORK, N. Y.

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